

COUNCIL POLICY C-~~F105~~Attachment 2

Restricted Surplus

Prepared By: ~~Chief Financial Office~~Financial Services

Council Approval Date:

Effective Date:

Council Resolution No.: ~~(If applicable or N/A)~~References: ~~Publics~~ Sector Accounting Board
~~2015 October 13, 2009~~Previous Revision Date: ~~March 17,~~

Handbook[JD1][DT2]

Function: Financial Management

LAS Review Date: June 20, 2017

PURPOSE

~~The purpose of this policy is to~~To establish ~~the~~ standards regarding the management of Parkland County's restricted surplus.

POLICY STATEMENT

~~Parkland County recognizes that the~~The ongoing commitment of funds to restricted surplus provides for property tax stabilization, ~~and~~ contingency funding, and reduces the need for debt financing. ~~In order to~~Established guidelines ensure consistent and effective management of the designated funds; ~~guidelines~~ pertaining to the restricted surplus ~~must be established~~.

DEFINITIONS

1. ~~"Asset Management"~~ means ~~restricted surplus accounts established to support the sustainability of current and future assets.~~~~"Contingency funding"~~ means ~~the financial assets that are set aside to cover the cost of unforeseeable future expenses.~~
2. ~~"County"~~ means the Municipality of Parkland County.
3. ~~"Externally Restricted"~~ means ~~restricted surplus accounts where the allowable uses are established by an authority other than Parkland County.~~
4. ~~"Extreme Events"~~ means ~~restricted surplus accounts established for expenditures where the cause was not under the control of the County and where an immediate response is required for public safety or to continue the delivery of essential services.~~
- 2.5. ~~"Liquidity"~~ means ~~the ability of the County to pay for obligations as they become due.~~
- 3.6. ~~"Property tax stabilization"~~ means the ~~avoidance of large~~minimal variations in property tax rates year over year.
- 4.7. ~~"Rate of return"~~ means the gain or loss arising from an investment expressed as a percentage of the principal amount invested.

8. **"Restricted surplus" means the ~~excess~~ revenues** which have been internally or externally restricted or formally designated. These restrictions identify funds for a specified future purpose and are not available to **meet the government's general obligations** and/or finance its other activities ~~(Public Sector Accounting Board 3100.02).~~ [DT3]

9. **"Risk Mitigation" means restricted surplus accounts used to hedge against potential risks.**

10. **"Target" means the level of funds that the restricted surplus should hold in order to achieve the purpose specified on the authorization form.**

11. **"Total Balance" means the total of all funds in a restricted surplus account.**

12. **"Undedicated Balance" means the sum of all funds not allocated to a specific purpose and held to mitigate future risk.**

~~5.~~

SCOPE

This policy applies to all departments within Parkland County.

MANAGEMENT RESPONSIBILITIES

Administration of the restricted surplus will be carried out by ~~the~~ Financial ~~Services~~ Planning and Reporting Department under the direction of the ~~Chief Financial Officer~~ General Manager of Corporate Services.

Standards

1. Authority

~~a.~~ The establishment or elimination of a restricted surplus must be approved by Council resolution. Transfers to and from the restricted surplus must be approved by Council resolution or through the budget approval process.

~~a.~~

~~b.~~ The Chief Administrative Officer has the authority to approve transfers from the Early Retirement Incentive Restricted Surplus for the purpose of servicing early retirements approved pursuant to Parkland County Directives A HR18 and A HR19.

2. Categories

Restricted surplus accounts are grouped into the following categories based on the characteristics of each account:

- a. Asset Management
- b. Risk Mitigation
- c. Externally Restricted
- d. Other as required

~~2.3.~~ Funding Sources

~~a.~~ Restricted surplus may be funded from various sources including, but not limited to:

~~i.~~ Direct cash receipts such as sale of capital assets and land,;

~~a.~~

~~ii.~~ Approved budget contributions,

~~b.~~

- ~~iii.~~ Carryover of current year's budget funds which were approved for a specific purpose but were not expended during the year,
 - ~~c.~~
- ~~iv.~~ Annual surplus contributions,
 - ~~d.~~
- ~~v.~~ Investment income, and
 - ~~e.~~
- ~~f.~~ Other ~~one time~~ revenue sources.

4. Usage

- ~~a.~~ Restricted surplus funds may only be used for the purposes specified by Council in the approved authorization forms attached ~~(see Schedule as Schedule A)~~ to this policy.
- ~~b.~~ Prohibited uses include but are not limited to:
 - ~~i.~~ Funding recurring expenditures
 - ~~ii.~~ Funding foreseeable one time expenditures where funding was not built up over time
 - ~~iii.~~ Any use not contemplated in the restricted surplus authorization form
- ~~—~~ Council may, by resolution, direct administration to utilize restricted surplus for any use.
- ~~c.~~

3.5. Interest Earnings

- a. Restricted surplus funds may be invested in accordance with the County's Investment Policy C-FI01. The minimum required rate of return is equal to the interest rate the County would earn in their operating account or the interest rate dictated by the corresponding legislation and/or agreement (if applicable).

Interest earnings will only be applied to the restricted surplus if:

- ~~i.~~ There are external requirements based on legislation or agreements, or
 - ~~i.~~
- ii. They are required to assist in offsetting the effects of inflation.

If neither condition is met, the interest earnings will be applied to the County's **general revenue**.

4.6. Internal Borrowing

- ~~a.~~ Where the County chooses to borrow internally from the restricted surplus to reduce the overall impact of external borrowing, ~~an~~ the interest rate ~~assessed will be equal to the corresponding Alberta Capital Finance Authority rate (i.e. the interest rate that the Alberta Capital Finance Authority would assess on a loan of similar duration)~~ will be applied to the borrowing that is reflective of the nature of the borrowing.

7. Liquidity

- ~~a.~~ The Chief Financial Office will **monitor the County's restricted surplus balance to ensure that there is sufficient funds available for the County to meet its cash obligations throughout the fiscal year.**
- ~~b.~~ If the Chief Financial Office determines that funds cannot be used due to cash flow obligations, alternative funding strategies will require Council approval.

8. Target

- ~~a.~~ Where applicable, restricted surplus accounts will be assigned a target to identify whether the account is under or over funded based on the expected use of the account.
- ~~a.~~ The target will also be classified as "total balance" or "undedicated balance" based on the nature of the account.

b. _____

5.9. Restricted Surplus Authorization Forms (Schedule A)

- a. ~~Financial Services~~The Chief Financial Office will prepare Restricted Surplus Authorization forms for Council to review and approve. These forms provide details regarding how specific fund balances will be managed. The following information ~~is~~must be included on each form:
- i. Type: Surpluses are segregated into categories based on their function
 - ~~i.ii.~~ Application: The criteria upon which funds can be transferred out of the restricted surplus~~Purpose: An explanation as to why restricted surplus funds are being set aside for this function;~~
 - ~~ii.iii.~~ Source of Funding: How additional funds will be generated to replenish depleted amounts;
 - ~~iii.~~ Target: The projected amount that is required to service future expenses pertaining to the specified purpose;
 - iv. Application: The criteria upon which funds can be transferred out of the restricted surplus;
 - v. Duration: The length of time that restricted surplus funds will be set aside for the specified purpose; and
 - vi. Interest bearing: Whether or not interest earned from the investment of restricted surplus funds will be applied to the restricted surplus.

10. Excess Restricted Surplus

- a. Excess balances in a restricted surplus account will be administered based on the following process. Excess funds will be applied:
- i. First to future known projects that meet the criteria of the applicable authorization form;
 - ii. Next to another restricted surplus which has not reached its target;
 - iii. Next to a one time project for which other funding sources are not available, and;
 - ~~vi.~~ Finally to general operating revenue.
- iv. _____

6.11. Reporting

- a. Reporting of the restricted surplus will form part of the monthly financial statements. ~~Significant transactions will be highlighted in the notes to the financial statements.~~